

Message Text

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PAGE 01 STATE 207713

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DRAFTED BY E:RASORENSEN

APPROVED BY E:CWROBINSON

S/S-O:DLMACK

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FM SECSTATE WASHDC

TO AMEMBASSY TEHRAN IMMEDIATE

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NODIS

E.O. 11652: GDS

TAGS: ENRG, IR

SUBJECT: BILATERAL OIL DEAL WITH IRAN

EYES ONLY FOR AMBASSADOR FROM UNDER SECRETARY ROBINSON

1. TO BRING YOU UP TO DATE ON OUR NEGOTIATIONS WITH ANSARY
ON OUR BILATERAL OIL DEAL, THE FOLLOWING DEVELOPMENTS HAVE
OCCURRED:

A) AT A MEETING IN CANNES AUGUST 11 WE REACHED GENERAL
AGREEMENT ON A FIVE YEAR ARRANGEMENT SUBSTANTIALLY IN
ACCORDANCE WITH THE AGREEMENT OUTLINE DRAFTED IN TEHRAN
ON JUNE 30 WITH SHIPMENTS TO COMMENCE SEPTEMBER 1.
HOWEVER, THIS PLAN WAS DEVELOPED ON THE ASSUMPTION THAT
WE COULD PROCEED WITHOUT CONGRESSIONAL APPROPRIATION.

B) HAVING DETERMINED SUBSEQUENTLY THAT A CONGRESSIONAL
APPROPRIATION WOULD BE REQUIRED, WE MET IN PARIS ON
AUGUST 21 TO PROPOSE AN ARRANGEMENT UNDER WHICH THE FIRST
60 TO 90 DAYS OF SUCH A FIVE YEAR ARRANGEMENT WOULD BE
SECRET

SECRET

PAGE 02 STATE 207713

ON AN AGENCY BASIS, WITH THE FIVE YEAR AGREEMENT TO BECOME

FIRM UPON OBTAINING THE NECESSARY CONGRESSIONAL APPROVAL. PURPOSE OF THE AGENCY ARRANGEMENT WAS TO GET AROUND THE NECESSITY OF CONGRESSIONAL APPROPRIATION IN THE EVENT OF ANY THEORETICAL LOSSES IN THE START UP PERIOD DURING WHICH CONGRESSIONAL AUTHORIZATION WOULD BE SOUGHT. THIS

WOULD HAVE ALLOWED US TO COMMENCE SHIPMENTS ON SEPTEMBER 1, BUT WE WOULD BE COMMITTED TO SEEK CONGRESSIONAL APPROVAL FOR A FIVE YEAR AGREEMENT.

C) THIS PROPOSAL WAS REJECTED BY ANSARY ON THE BASIS THAT THEY COULD NOT ACCEPT AN AGENCY RELATIONSHIP WHICH WOULD LEAVE US ESSENTIALLY UNCOMMITTED. IN ADDITION, IRAN WAS UNWILLING TO SUBMIT TO PUBLIC DEBATE A CONDITIONAL AGREEMENT BASED ON THE CURRENT OPEC PRICE JUST PRIOR TO COMMENCEMENT OF THE OPEC MEETINGS TO CONSIDER A PRICE INCREASE ON OCTOBER 1.

D) SUBSEQUENTLY, ANSARY SUBMITTED A COUNTER OFFER UNDER WHICH THE US WOULD SELL 500,000 BARRELS OF OIL A DAY AS AGENT FOR IRAN DURING THE FOUR MONTHS SEPTEMBER-DECEMBER. THIS REPRESENTED A CHANGE IN ANSARY'S PREVIOUS POSITION ON OUR PROPOSAL, BUT IN THIS CASE WE WOULD HAVE BEEN OBLIGATED TO SUBMIT TO CONGRESS A PROPOSAL FOR A FIVE YEAR AGREEMENT WITH INDEXATION BASED ON THE OCTOBER 1 OPEC PRICE. WE, OF COURSE, REJECTED THIS AS COMPLETELY UNACCEPTABLE.

E) IN A LATER TELEPHONE CONVERSATION, ANSARY SUGGESTED SEVERAL POSSIBILITIES AS A BASIS FOR CONTINUING NEGOTIATIONS. HOWEVER, THE ONLY ONE WHICH WE MIGHT CONSIDER CALLS FOR BACKDATING OF THE ORIGINALLY PROPOSED FIVE YEAR ARRANGEMENT WITH EARLIER COMMENCEMENT OF INDEXATION, PRESUMABLY TO PLACE IRAN IN A MORE DEFENSIBLE POSITION IN THEIR RELATIONS WITH OPEC.

2. IT IS NOT CLEAR TO US EXACTLY HOW A FORMULA MIGHT BE DEVELOPED WHICH MEETS THE SHAH'S REQUIREMENTS AND STILL LEAVES US WITH A PRICE BELOW THE OFFICIAL OPEC LEVEL. HOWEVER, WE WOULD APPRECIATE YOUR DISCUSSING THIS WITH
SECRET

SECRET

PAGE 03 STATE 207713

ANSARY, EXPRESSING OUR INTEREST IN EXPLORING THIS WITH HIM IN GREATER DETAIL. WE HAVE THREE BASIC QUESTIONS: (1) WHAT IS THE MINIMUM BACKDATING FOR COMMENCEMENT OF INDEXATION; (2) WOULD THIS REFLECT THE FULL PERCENTAGE MONTHLY INCREASE IN OUR WHOLESALE PRICE INDEX, OR COULD WE AGREE ON A FORMULA WHICH WOULD REDUCE THE IMPACT ON OIL PRICING; AND (3) WOULD ACTUAL SHIPMENTS TAKING PLACE AT A LATER DATE REFLECT THE CONTRACT TONNAGE FOR EARLIER

MONTHS WITH PRICES CORRESPONDING TO THOSE MONTHS.

3. TO ILLUSTRATE WHAT WE ARE TRYING TO GET AT WITH ANSARY, ASSUME THE CONTRACT IS BACKDATED TO JUNE 1. IN THIS CASE WE WOULD EXPECT THE JUNE CONTRACT TONNAGE AT 500,000 BARRELS PER DAY TO BE DELIVERED IN THE FIRST MONTH FOLLOWING EXECUTION OF THE AGREEMENT AND AT THE JUNE PRICE OR CURRENT OPEC PRICE. (ITS REAL COST WOULD BE THIS PRICE DISCOUNTED BY THE BENEFIT OF AN INTEREST MORATORIUM YET TO BE AGREED.) THE US WHOLESALE PRICE INDEX ANNOUNCED ON THE 10TH OF JUNE WOULD ESTABLISH THE PRICE FOR THE JULY CONTRACT TONNAGE WHICH WOULD BE THE BASE PRICE ADJUSTED BY THE PERCENTAGE CHANGE IN THE WHOLESALE PRICE INDEX FROM MAY TO JUNE. THE PRICE FOR THE AUGUST CONTRACT TONNAGE WOULD SIMILARLY BE CALCULATED ON THE BASE PRICE ADJUSTED BY THE PERCENTAGE CHANGE IN THE WHOLESALE PRICE INDEX FROM MAY TO JULY AND SO ON. WE WANT TO KNOW IF THIS IS THE WAY ANSARY IS PROPOSING THAT THE INDEXATION FORMULA BE APPLIED.

4. A BACKDATING OF THE COMMENCEMENT OF INDEXATION MIGHT BE ACCEPTABLE TO US ONLY ON THE BASIS THAT CONTRACT TONNAGE AT THE EARLIER INDEXED PRICES IS TO BE SHIPPED IN SUBSEQUENT MONTHS. THAT IS, FOR EXAMPLE, SEPTEMBER SHIPMENTS WOULD CONSIST OF JUNE CONTRACT TONNAGE, OCTOBER SHIPMENTS WOULD BE JULY CONTRACT TONNAGE, ETC. IN EFFECT, THIS WOULD MEAN THAT EACH MONTH'S ACTUAL LIFTING WOULD BE BASED UPON AN EARLIER--AND THEREFORE LOWER-- FORMULA PRICE WITH ITS REAL COST TO US DISCOUNTED BY THE INTEREST MORATORIUM. THIS WOULD PROVIDE AN APPEARANCE OF AN EARLIER AGREEMENT ON TERMS WHICH COULD COMPENSATE IRAN FOR THE DELAY IN OUR CONCLUDING THE AGREEMENT COMBINED WITH OUR HAVING TO SEEK CONGRESSIONAL APPROVAL. INGERSOLL

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